

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Speech - Structural Change in the International Economy

FROM:

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7 January, 1988

Bob:

Here are the proposed remarks on Structural Change in the International Economy our speechwriters prepared for you.

STAT The method they used was the one you suggested in our December 14 meeting. They contacted the Office of Global Issues and worked with [] the Research Director, to develop a draft. These remarks represent an original draft from OGI, our writers' revisions, and an agreed-upon final text. All changes were coordinated with OGI.

We have followed our usual procedure of providing footnotes.

Bill Baker

STAT

DCI/PAO/WMB

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B-802-11

PROPOSED REMARKS
STRUCTURAL CHANGE IN THE
INTERNATIONAL ECONOMY

ONE OF THE MOST IMPORTANT TASKS OF THE INTELLIGENCE COMMUNITY IS PROVIDING EARLY WARNING OF EVENTS OR TRENDS THAT COULD JEOPARDIZE THE SECURITY OF THIS NATION AND ITS ALLIES. AT ITS MOST IMMEDIATE LEVEL, THIS WARNING FUNCTION IS CONCERNED WITH MISSILES COMING OVER OUR BORDERS OR FRIENDLY GOVERNMENTS FALLING TO COUPS OR REVOLUTIONS. TODAY, HOWEVER, I WOULD LIKE TO SPEAK ABOUT EVENTS AND TRENDS THAT ARE LESS IMMEDIATE BUT CERTAINLY NO LESS IMPORTANT. I WOULD LIKE TO ISSUE AN EARLY WARNING ABOUT STRUCTURAL CHANGE IN THE INTERNATIONAL ECONOMY.

BY STRUCTURAL CHANGE I MEAN A COMPLEX OF CHANGES -- CHANGES THAT USUALLY ARISE OUT OF TECHNOLOGICAL ADVANCES -- AND GO FAR BEYOND ECONOMIC EFFECTS. CHANGES THAT FORCE ALTERATIONS IN SOCIAL AND POLITICAL ORGANIZATION AND IN THE RELATIVE POWER OF CLASSES AND

NATIONS. FOR EXAMPLE, ACCORDING TO SOME HISTORIANS, THE INVENTION OF THE STIRRUP MADE KNIGHTHOOD -- AND EUROPEAN-STYLE FEUDALISM -- POSSIBLE; THE INVENTION OF FIREARMS MADE IT AN ANACHRONISM.

AT PRESENT I SEE THREE LONG-TERM TRENDS IN THE INTERNATIONAL ECONOMY THAT, TAKEN TOGETHER, CONSTITUTE A MAJOR STRUCTURAL CHANGE.¹ THESE THREE TRENDS ARE: THE DECLINE IN THE VALUE OF MOST COMMODITIES; THE INTERNATIONALIZATION OF PRODUCTION; AND THE GLOBALIZATION OF FINANCIAL MARKETS. I WOULD LIKE TO TREAT EACH OF THESE IN TURN AND THEN SPECULATE A BIT ABOUT HOW THEY WILL PLAY OUT IN SOCIETY AND INTERNATIONAL POLITICS.

A FEW MONTHS AGO I READ AN ARTICLE IN THE SCIENTIFIC AMERICAN ENTITLED "BEYOND THE ERA OF MATERIALS." ACCORDING TO THIS ARTICLE BY LARSON, ROSS, AND WILLIAMS, THE INDUSTRIAL COUNTRIES "ARE NOW LEAVING THE ERA OF MATERIALS, WHICH SPANNED THE TWO CENTURIES FOLLOWING THE ADVENT OF THE INDUSTRIAL REVOLUTION, AND ARE MOVING

INTO A NEW ERA IN WHICH THE LEVEL OF MATERIALS WILL NO LONGER BE AN IMPORTANT INDICATOR OF ECONOMIC PROGRESS." THE AUTHORS GIVE FOUR REASONS FOR THIS:

- o THE SUBSTITUTION OF COMMON FOR RARE MATERIALS
- o THE INCREASED EFFICIENCY OF MATERIALS USE
- o THE SATURATION OF MARKETS
- o THE LOW MATERIALS CONTENT OF EVOLVING NEW MARKETS

THEY BELIEVE THAT MARKET SATURATION IS THE MOST IMPORTANT OF THESE REASONS -- AND THEY ARGUE PERSUASIVELY THAT REPLACING AND MAINTAINING ESTABLISHED NETWORKS OF HOUSING, FACTORIES, AND ROADS CANNOT PROVIDE THE KIND OF LONG-TERM STIMULUS THAT WAS ONCE PROVIDED BY THEIR CREATION.²

STUDIES DONE AT THE CIA STRONGLY SUPPORT THIS VIEW -- THOUGH PERHAPS GIVING MORE EMPHASIS TO TECHNOLOGICAL CHANGE AND LESS TO MARKET SATURATION. DESPITE OCCASIONAL UPSWINGS IN THE REAL VALUE OF

COMMODITIES, SUCH AS THE RAPID RUNUP IN OIL PRICES DURING THE 1970's, THE TREND OVER THE DECADES HAS BEEN DOWN. OVER TIME, THE PRICES OF EVERYTHING FROM OIL TO URANIUM, FROM COPPER TO BAUXITE, FROM SUGAR TO WHEAT HAVE RISEN LESS RAPIDLY THAN OVERALL INFLATION. I DO NOT BELIEVE THAT THESE TRENDS ARE LIKELY TO BE REVERSED. IF ANYTHING, THEY WILL INTENSIFY.

MINERAL MARKETS HAVE BEEN HIT ESPECIALLY HARD, WITH TECHNOLOGICAL ADVANCES PROVIDING A GROWING ARRAY OF SUBSTITUTES FOR RAW MATERIALS, PARTICULARLY COPPER, IRON, BAUXITE, AND TIN. AS ONE EXAMPLE, COPPER WIRE IS BEING REPLACED BY FIBER OPTICS, LINE-OF-SIGHT MICROWAVE SYSTEMS, AND SATELLITE COMMUNICATION NETWORKS. ALTHOUGH THE DEVELOPMENT COSTS OF THESE NEW SYSTEMS HAVE BEEN HIGH, THE ADDITIONAL COST PER COMMUNICATION CHANNEL IS NEGLIGIBLE. SIMILAR TRENDS ARE OCCURRING IN THE TIN AND IRON MARKETS AS LIGHTER-WEIGHT, LOWER-COST SUBSTITUTES ARE CREATED.

THESE INCLUDE HIGH-STRENGTH PAPERS, PLASTICS, AND CERAMICS. IN ADDITION, THE DEMAND FOR TIN AND IRON IS BEING WEAKENED BY NEW MANUFACTURING TECHNOLOGIES THAT REQUIRE LESS MATERIAL -- FOR EXAMPLE, LESS TIN PER UNIT OF AREA TIN-PLATED AND LESS IRON PER TON OF MILLED STEEL.

IN MINERALS, TECHNOLOGY HAS MAINLY ACTED TO REDUCE DEMAND; IN AGRICULTURE, IT HAS ACTED TO INCREASE SUPPLY. INDIA HAS GONE FROM A MAJOR IMPORTER OF WHEAT TO A NET EXPORTER IN JUST A FEW YEARS, WHILE INDONESIA, ONCE THE WORLD'S LARGEST IMPORTER OF RICE, HAS BECOME SELF-SUFFICIENT. IN TRIUMPHS OF TECHNOLOGY OVER ECONOMICS -- AND EVEN OVER COMMON SENSE -- THE EUROPEAN COMMUNITY IS NOW A NET EXPORTER OF SUGAR, AND SAUDI ARABIA HAS A SURPLUS OF WHEAT. USING A VARIETY OF TECHNOLOGIES RANGING FROM GENETIC ENGINEERING TO IMPROVED SOIL MANAGEMENT, THE AGRICULTURAL SUPERPOWERS -- COUNTRIES SUCH AS THE UNITED STATES, CANADA, AUSTRALIA, BRAZIL, AND ARGENTINA -- ARE

PRODUCING EVER GREATER QUANTITIES WHILE THEIR FORMER MARKETS ARE ACHIEVING SELF-SUFFICIENCY. AS PRICES PLUMMET, FARMERS PRODUCE STILL MORE IN AN EFFORT TO MAINTAIN THEIR INCOMES. AND THE DOWNWARD SPIRAL INTENSIFIES.

BEFORE I LEAVE THE SUBJECT OF THE CONTINUING DECLINE IN THE VALUE OF COMMODITIES, I WOULD LIKE TO MENTION ONE OTHER COMMODITY THAT IS FAST LOSING ITS FORMER VALUE -- UNSKILLED LABOR. HERE TOO THE EFFECT OF TECHNOLOGY CAN BE SEEN. THE TIME MAY BE COMING WHEN UNSKILLED LABOR WILL CEASE TO BE A FACTOR OF PRODUCTION, AND LABOR-INTENSIVE ASSEMBLY INDUSTRIES WILL NO LONGER BE ABLE TO COMPETE. ROBOTS MAY SOON BE ABLE TO ASSEMBLE ELECTRONICS AND SEW BASEBALLS MORE CHEAPLY THAN THE LOWEST-PAID ASIANS AND LATIN AMERICANS. AND THE BOUNDARY LINE BETWEEN UNSKILLED, UNUSABLE LABOR AND SKILLED, USABLE LABOR WILL RISE, LEAVING A LARGE PART OF THE LABOR FORCE IN MANY COUNTRIES BELOW THE LINE. MOREOVER, STRATEGIES

THAT HAVE BROUGHT RELATIVE PROSPERITY IN MANY ADVANCING THIRD WORLD COUNTRIES WILL HAVE TO BE RETHOUGHT.

THE SECOND SECULAR TREND THAT I WOULD LIKE TO DISCUSS IS THE INTERNATIONALIZATION OF PRODUCTION. WHILE NO ONE WAS LOOKING, NATIONAL INDUSTRY ALL BUT DISAPPEARED. AND NOT ONLY IN THE UNITED STATES, BUT ALL OVER THE WORLD. IF I BUY A VOLKSWAGEN, I FIND IT WAS MADE IN BRAZIL. MY FORD IS MADE IN MEXICO OUT OF JAPANESE PARTS, AND MY HONDA IS PUT TOGETHER IN THE UNITED STATES. IF I DECIDE TO BE PATRIOTIC AND BUY AN "AMERICAN-MADE" IBM PERSONAL COMPUTER, I FIND THAT THE MONITOR IS MADE IN KOREA, THE PRINTER IS MADE IN JAPAN, THE DISK DRIVES ARE MADE IN SINGAPORE, THE POWER SUPPLY, THE KEYBOARD, AND HALF OF THE SEMICONDUCTORS ARE MADE IN JAPAN. ONLY 27 PERCENT OF THE TOTAL MANUFACTURING COSTS ARE ATTRIBUTABLE TO DOMESTIC PRODUCTION.³

THERE ARE A NUMBER OF REASONS FOR THIS TREND. SOME SMOKESTACK AND ASSEMBLY OPERATIONS HAVE MOVED TO THE MORE ADVANCED COUNTRIES OF THE THIRD WORLD IN SEARCH OF LOWER WAGE RATES AND MORE LENIENT ENVIRONMENTAL AND TAX LAWS. SUCH MOVES WILL PROBABLY CONTINUE FOR SOME TIME, DESPITE RISING WAGE RATES AND THE INCREASED USE OF ROBOTICS IN THESE COUNTRIES. HIGH TECHNOLOGY OPERATIONS ARE BEING INTERNATIONALIZED TO POOL IDEAS, RESEARCH, CAPITAL, FACILITIES, ORGANIZATIONS, AND MARKETS IN A SOMETIMES DESPERATE EFFORT TO STAY AHEAD OF THE TECHNOLOGY CURVE. THE RISKS AND COSTS OF RESEARCH AND DEVELOPMENT AND HIGH-TECH MANUFACTURING HAVE RISEN EXPONENTIALLY IN RECENT YEARS. MEANWHILE, UNSTABLE MARKETS, RAPID TECHNOLOGICAL ADVANCES, AND SHORTENED PRODUCT LIFE CYCLES ARE SQUEEZING THE ABILITY OF FIRMS TO RECOUP THEIR INVESTMENTS. MOREOVER, GOVERNMENTS ARE ERECTING, OR THREATENING TO ERECT, TRADE BARRIERS TO PROTECT DOMESTIC INDUSTRIES AND EMPLOYMENT FROM FOREIGN COMPETITION.

TO COUNTERACT THESE FORCES AND REMAIN COMPETITIVE -- IN WHAT MIGHT BE CALLED A VICTORY OF CAPITALISM OVER NATIONALISM -- BOTH U.S. AND FOREIGN COMPANIES ARE FORMING ALLIANCES OVERSEAS. THESE ALLIANCES, SOME OF WHICH ARE ACTIVELY ENCOURAGED BY FOREIGN GOVERNMENTS, HAVE CREATED A COMPLEX NETWORK OF EQUITY INVESTMENTS, CONSORTIUMS, JOINT VENTURES, LICENSING, AND AGREEMENTS FOR DISTRIBUTION AND OUTSOURCING.

THE IMPORTANT THING ABOUT THIS TREND IS NOT THAT SOME NATIONS ARE GAINING AN ECONOMIC OR COMMERCIAL ADVANTAGE OVER OTHER NATIONS, BUT RATHER THAT INDUSTRY IS SLOWLY BEING DECOUPLED FROM NATIONALITY. LET ME ILLUSTRATE THIS SHIFT TOWARD INTERNATIONALIZATION. TAKE THE EXAMPLE OF A FIRM BASED ON U.S. TECHNOLOGY AND JAPANESE CAPITAL, WITH PLANTS IN FRANCE, GERMANY, AND IRELAND, AN INTERNATIONAL MANAGEMENT AND TECHNICAL STAFF, AND CUSTOMERS THROUGHOUT THE WORLD. HOWEVER THIS FIRM MAY HAVE STARTED,

AT THIS POINT IT IS NO LONGER A U.S. FIRM, OR A JAPANESE FIRM, OR A EUROPEAN FIRM. AND ITS ECONOMIC AND POLITICAL INTERESTS WILL NOT NECESSARILY COINCIDE WITH THOSE OF THE UNITED STATES, JAPAN, OR EUROPE. IT IS INTERNATIONAL IN SCOPE, RATHER THAN NATIONAL IN INTEREST.

CLOSELY CONNECTED WITH INTERNATIONALIZATION OF INDUSTRY HAS BEEN A SHIFT IN THE STRUCTURE OF THE DEVELOPED ECONOMIES. IN ALMOST ALL OF THE DEVELOPED COUNTRIES, INDUSTRIAL OUTPUT HAS KEPT PACE WITH TOTAL GNP. THIS IS DUE ALMOST ENTIRELY TO INCREASED PRODUCTIVITY AND A SHIFT FROM LOWER VALUE TO HIGHER VALUE PRODUCTS, AS IS INDICATED BY THE FACT THAT THE INDUSTRIAL LABOR FORCE HAS STAGNATED OR DECLINED AS A SHARE OF THE TOTAL LABOR FORCE. JUST AS THE GREAT INCREASES IN AGRICULTURAL PRODUCTION CAME LONG AFTER MOST OF THE FARM LABOR FORCE HAD SHIFTED INTO INDUSTRY, SO THE GREAT INCREASES IN INDUSTRIAL PRODUCTION ARE COMING AFTER MUCH OF THE INDUSTRIAL

LABOR FORCE HAS SHIFTED INTO SERVICES. AT THE SAME TIME, WITHIN THE INDUSTRIAL SECTOR, THERE HAS BEEN A STEADY SHIFT OF BOTH LABOR AND OUTPUT FROM LOW-TECH TO HIGH-TECH INDUSTRIES.

LET ME GIVE YOU A FEW FIGURES. MANUFACTURING AS A SHARE OF TOTAL OUTPUT IN THE UNITED STATES IS AROUND 22 PERCENT AND THIS HASN'T CHANGE MUCH SINCE 1960. DURING THIS PERIOD, HOWEVER, WHILE BOTH TOTAL OUTPUT AND MANUFACTURING OUTPUT MORE THAN DOUBLED, THE MANUFACTURING LABOR FORCE FELL FROM 31 PERCENT TO 19 PERCENT OF THE TOTAL. THE EXPERIENCE OF THE OTHER INDUSTRIALIZED COUNTRIES HAS BEEN SIMILAR AND IN THE CASE OF JAPAN EVEN MORE EXTREME. THIS EXPLOSIVE GROWTH HAS MASKED A DECLINE IN THE OUTPUT OF MANY TRADITIONAL INDUSTRIES, WITH THE DIFFERENCE BEING MORE THAN OFFSET BY THE GROWTH OF HIGH-TECH MANUFACTURING. WE ESTIMATE THAT BETWEEN 1976 AND 1986, THE HIGH-TECH SHARE OF TOTAL U.S. MANUFACTURING ROSE FROM 13 PERCENT TO 17 PERCENT. THE FIGURES WOULD BE ABOUT THE SAME IN JAPAN AND SOMEWHAT LESS IN EUROPE.⁴

IN A NUTSHELL, THE POST INDUSTRIAL SOCIETY HAS ARRIVED.

NATIONAL INDUSTRY IS BECOMING INCREASINGLY INTERNATIONALIZED AND DENATIONALIZED, WHILE THE INDUSTRIAL LABOR FORCE IS SHRINKING. THE DAY IS RAPIDLY APPROACHING WHEN INDUSTRY, AGRICULTURE, AND MINING COMBINED WILL EMPLOY LESS THAN A THIRD OF THE LABOR FORCE IN THE SO-CALLED "INDUSTRIALIZED" COUNTRIES.

THE THIRD TREND THAT I WOULD LIKE TO DISCUSS IS ONE THAT HAS BEEN ON ALL OF OUR MINDS A GREAT DEAL SINCE BLACK MONDAY -- A TRILLION DOLLAR LOSS IN SHAREHOLDER WEALTH WORLDWIDE DOES TEND TO CONCENTRATE THE MIND -- THE GLOBALIZATION OF FINANCIAL MARKETS. SINCE LATE IN THE LAST DECADE, WE HAVE SEEN AN UNPRECEDENTED RESTRUCTURING OF FINANCIAL MARKETS: TRADITIONAL DISTINCTIONS HAVE BEEN BLURRED BETWEEN DOMESTIC AND INTERNATIONAL MARKETS, BETWEEN DIFFERENT TYPES OF FINANCIAL TRANSACTIONS, AND BETWEEN WHO IS A MARKET PARTICIPANT AND WHO IS NOT. AT THE SAME TIME, THERE HAS BEEN

AN EXPLOSIVE INCREASE IN THE SPEED, SIZE, AND SCOPE OF INTERNATIONAL MONEY TRANSACTIONS. AS A RESULT, INTERNATIONAL FINANCIAL MARKETS HAVE BECOME A CONNECTIVE MEDIUM THAT LINKS POLITICAL AND ECONOMIC PHENOMENA WORLDWIDE.

THE GLOBALIZATION OF FINANCIAL MARKETS APPEARS TO HAVE BEEN THE RESULT OF THE CONFLUENCE OF THREE FACTORS.

- o FIRST, THE OIL SHOCKS OF THE 1970s ENABLED THE CAPITAL MARKETS TO RECYCLE BILLIONS OF PETRODOLLARS OUT OF THE PERSIAN GULF, THROUGH WESTERN MONEY CENTERS, TO THIRD WORLD BORROWERS. MORE RECENTLY, THE JAPANESE HAVE EXPORTED A LARGE SHARE OF THEIR CAPITAL SURPLUS TO THE UNITED STATES.
- o SECOND, THE RAPID ADVANCES IN COMPUTER AND TELECOMMUNICATION TECHNOLOGIES HAVE ENABLED FINANCIAL TRADERS TO INTEGRATE AND ACCELERATE INTERNATIONAL TRANSACTIONS.

0 FINALLY, A WAVE OF FINANCIAL DEREGULATION HAS SWEEPED THROUGH
THE WESTERN MONEY CENTERS, BRINGING WITH IT GREATER
COMPETITIVE PRESSURES THAT HAVE LED TO WIDESPREAD MARKET
INNOVATIONS.

FINANCIAL INTEGRATION HAS NOT ONLY BEEN ACCELERATING--IT HAS
OUTSTRIPPED ANY CORRESPONDING POLITICAL INTEGRATION OR ATTEMPTS TO
COORDINATE ECONOMIC POLICY. LET ME GIVE YOU A FEW STATISTICS:
ELECTRONIC FINANCIAL COMMUNICATION NETWORKS NOW HANDLE MORE THAN \$1
TRILLION PER DAY; INTERBANK DEPOSITS ARE APPROACHING \$2 TRILLION,
THREE TIMES THE 1981 LEVEL; AND INTERNATIONAL BANK FINANCING SOARED
80 PERCENT IN TWO YEARS. THE NUMBER OF INTERNATIONAL BANKS IS NOW
IN THE HUNDREDS, UP FROM JUST A HANDFUL IN THE 1970s; OFFSHORE BANKS
HAVE MULTIPLIED EACH YEAR FOR THE LAST FEW YEARS; AND THE VOLUME OF
EUROMARKET TRANSACTIONS HAS PROBABLY MORE THAN TRIPLED SINCE THE
1970s. FINALLY, NEW FINANCIAL INSTRUMENTS -- NIFs, FRNs, GUNs.

SNIFs, AND RUFs, TO NAME A FEW OF THE BEASTS -- ARE APPEARING ON THE MARKETS FASTER THAN EITHER TRADERS OR REGULATORS CAN FULLY UNDERSTAND THEM.⁵

IF WE PUT THESE THREE TRENDS TOGETHER, WHAT DO WE HAVE? CLEARLY, A MAJOR STRUCTURAL CHANGE IN THE WORLD ECONOMY. A TRANSFORMATION THAT FUTURE GENERATIONS MAY SEE AS RIVALING THE INDUSTRIAL REVOLUTION. BEYOND THAT, WE MUST BE MODEST AND ADMIT THAT WE CANNOT SEE WITH CERTAINTY HOW THESE TRENDS WILL PLAY OUT EVEN IN ECONOMICS, MUCH LESS IN POLITICS AND SOCIETY. NO MATTER HOW PRESCIENT WE ARE, THERE WILL BE MAJOR SURPRISES.

THAT SAID, LET ME SPECULATE A BIT. AS CURRENT TRENDS PLAY OUT, THE FOLLOWING MAY HAPPEN:

- o THE AGRICULTURAL SECTORS OF EUROPE AND JAPAN, NOW SUBSIDIZED, MAY BECOME SO EXPENSIVE TO MAINTAIN THAT THEY WILL EVENTUALLY BE ABANDONED, LEADING TO A MORE EFFICIENT

WORLD AGRICULTURAL SYSTEM. THIS WILL BENEFIT CONSUMERS
WORLDWIDE AND BENEFIT FARMERS IN COUNTRIES SUCH AS THE
UNITED STATES, CANADA, ARGENTINA, BRAZIL, AND AUSTRALIA.

- o SMOKESTACK INDUSTRY MAY CONTINUE TO SHIFT TO THE NICs, AS
THE DEVELOPED COUNTRIES MOVE INTO HIGH TECHNOLOGY INDUSTRY
AND SERVICES. THIS COULD LEAD TO INCREASED PROSPERITY IN
BOTH THE DEVELOPED COUNTRIES AND THE NICs. IT COULD ALSO
CAUSE A DECLINE IN THE INFLUENCE OF ORGANIZED LABOR IN THE
DEVELOPED COUNTRIES AND A RISE IN LABOR'S INFLUENCE IN THE
NICs. THE RESULT: A POSSIBLE LOSS OF INDUSTRIAL
SELF-SUFFICIENCY IN THE DEVELOPED COUNTRIES, A LOSS THAT
COULD BE CRUCIAL IN TIME OF WAR.
- o THE DENATIONALIZATION OF HIGH TECHNOLOGY INDUSTRY MAY MAKE
IT DIFFICULT TO MOBILIZE IN TIME OF WAR. AND THIS TREND
WILL MAKE IT EVEN MORE DIFFICULT TO PROTECT
SECURITY-RELATED TECHNOLOGY.

THUS FAR, WE HAVE PROJECTED A WORLD AGRICULTURAL SYSTEM, A SHIFT OF SMOKESTACK INDUSTRY TO THE NICs, AND THE DENATIONALIZATION OF HIGH TECHNOLOGY INDUSTRY. WHAT ELSE MIGHT WE SEE?

- o WE MIGHT SEE THE THIRD WORLD SPLIT BETWEEN THE NEWLY INDUSTRIALIZING COUNTRIES AND THE COMMODITY-DEPENDENT COUNTRIES, WITH THE LATTER FOR ALL INTENT AND PURPOSES DROPPING OUT OF THE GLOBAL ECONOMY.
- o AN INCREASED USE OF ROBOTICS IN THE SMOKESTACK INDUSTRY OF THE NICs OVER THE LONG TERM. THIS MAY LEAD TO INCREASED UNEMPLOYMENT AND INCREASED ILLEGAL MIGRATION INTO THE DEVELOPED COUNTRIES.
- o THE SOURCE OF CONFLICTS MAY CHANGE. NATURAL RESOURCES, WITH THE POSSIBLE EXCEPTIONS OF WATER AND OIL, MAY CEASE TO BE A CAUSE OF WAR. SEA ROUTES AND GEOGRAPHIC CHOKEPOINTS MAY ALSO CEASE TO BE IMPORTANT IN WORLD POLITICS.

- o AS NATIONS BECOME INTERDEPENDENT, A PURELY DOMESTIC ECONOMIC POLICY MAY BECOME IMPOSSIBLE. UNCONTROLLABLE CAPITAL FLOWS HAVE THE POTENTIAL TO SWAMP DOMESTIC MONETARY, FISCAL, AND TRADE POLICIES.
- o AND DENATIONALIZED CAPITAL AND DENATIONALIZED INDUSTRY MAY CREATE A CLASS OF DENATIONALIZED CITIZENS, WITH MORE LOYALTY TO THE INTERNATIONAL ECONOMIC SYSTEM THAN TO ANY NATIONAL STATE. THESE INTERNATIONALISTS COULD TURN OUT TO BE SAINTS OR ROGUES OR A LITTLE OF BOTH.⁶

THESE SPECULATIONS ARE ONLY A FEW OF THE POSSIBLE RESULTS OF THE ONGOING STRUCTURAL CHANGE IN THE WORLD ECONOMY. I'M SURE YOU CAN THINK OF OTHERS. SOME OF THE ONES THAT I HAVE SUGGESTED WILL NOT COME TO PASS, WHILE OTHERS THAT I HAVE NOT THOUGHT OF MAY BE CRUCIAL.

THE IMPORTANT THING IS THAT WE IN THE INTELLIGENCE COMMUNITY AND YOU AS CITIZENS STAY ALERT TO THE MAJOR CHANGES THAT ARE GOING ON AROUND US EVEN AS WE CONTINUE TO COPE WITH MORE IMMEDIATE CHALLENGES. THE FUTURE, AS ALWAYS, IS A REALM OF OPPORTUNITY AND OF DANGER. WE HAVE OUR EARLY WARNING.

THANK YOU.

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